How Do State Foreign Policy Preferences Condition Investors' Perception of BITs Compliance?

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Abstract

Why have some states terminated bilateral investment treaties after losing an investor-state claim while other states in a similar situation have continued to participate? In this paper, I argue that this is because benefits from BITs accrue only when investors find the promise of BIT compliance to be credible. Investors do not evaluate BITs in isolation. When investors believe that a country generally abides by the rules and norms of the liberal international system, then they view BITs as credible commitments that states will refrain from expropriation and resolve investment disputes through the legalized means specified in the treaties. However, investors are more suspicious when countries who do not typically accept the rules and norms of the liberal international system ratify BITs. These countries may do so merely as window dressing; as we have seen in other policy areas such as human rights. I find strong quantitative evidence for this idea. BITs increase investment flows only to countries who typically accept liberal proposals in the UN General Assembly. Moreover, adverse rulings by arbitral tribunals only lead to reductions in investments in countries that typically vote in an illiberal manner. These countries only experience the negative side of the investment system: adverse rulings provide negative information about an investment climate whereas signing the BIT is seen as a mostly empty signal.

Keywords: Foreign Direct Investment, Bilateral Investment Treaties, International Organization

Word Count: 6429

Introduction

In recent years, investor-state dispute settlement (ISDS) has surfaced as a major point of contention. ISDS clauses allow private investors to initiate litigation against host countries for expropriations or contractual breaches using designated domestic and international courts. The rulings from such litigation have often led the host government to owe a substantial amount of compensation to investors. For example, one out of two awards to foreign investors has been over US 20 million dollars. Such exorbitant costs of these treaties have propelled signatories to withdraw from these treaties. As of August, 2016, five countries – Bolivia, Venezuela, Ecuador, South Africa, and Indonesia – have unilaterally withdrawn from bilateral investment treaties, citing invasion of sovereignty.

In all five cases, decisions of withdrawal were triggered by arbitration cases or rulings against the host countries, but this explanation alone cannot address why some countries are more dissatisfied with gains from investment agreements than others subjected to similar grievances. While countries such as the Czech Republic, Canada, and Poland were part of the five most challenged countries in investor-state arbitration by 2014, unlike Bolivia or Venezuela, they have not expressed any intent to reject investment treaties or ISDS. Why have some countries found investment agreements to be more costly than others?

In this paper, I address this question by arguing that investment agreements allocate benefits disproportionately, creating winners and losers among signatories based on how much trust investors have in its prospect for compliance. Countries that are on board with the US-led liberal order are more likely to benefit from signing investment agreements as they are likely to be viewed as more trustworthy given their foreign policy postures favoring norms of international cooperation. *Ceteris paribus*, liberal countries attract more investment

with the ratification of investment agreements and lose less when there is an allegation of non-compliance. This explains why countries like Bolivia, Venezuela, Ecuador, and South Africa, which overall have not demonstrated a sufficient level of cooperation with liberal global agenda, have been more likely to withdraw compared to Canada and Poland, which have been more receptive of liberal agenda in general. Geopolitical factors – such as alignment with the existing global order – can shape how much credibility the signed agreement holds.

This paper makes two theoretical and two empirical contributions to the IPE, international institution, and FDI literature. First, I make a theoretical contribution by showing that geopolitical alignment affects not only inter-governmental exchanges but also the actions of private actors such as international investors. Second, I introduce a new theory that investment agreements may have different distributional consequences based on country's acceptance of rules and norms of liberal international system. Third, I contribute to the existing literature on investor cognitive short cuts (Brooks and Mosely, 2012; Gray and Hicks, 2014; Gray, 2009) by introducing state systematic foreign policy orientation as another categorization that actors consider in investment decisions. Fourth, I make an empirical contribution by qualifying the scope condition under which investment agreements can result in a higher volume of investment. Findings from this paper confirm my hypothesis that a host country's propensity to be cooperative in the current US-led liberal order affects investor perception of the probability of host country compliance with the terms of international investment agreements.

The remainder of this paper proceeds as follows: First, I review the existing literature on information about the effect of international investment treaties on FDI and investor behavior to present a new theory on the distributional consequences of international

investment agreement based on a host country's systematic foreign policy preference – acceptance of the liberal order. In the subsequent section, I provide quantitative evidence of the theory, as well as results from host of robustness checks. In the conclusion, I summarize my findings and suggest future avenues of research.

Theory

Unlike more liquid form of investments in portfolio, money or debt instruments, foreign direct investments are less mobile and thus are subject to time inconsistency problem. That is, while the host government has incentives to assure fair treatment of foreign assets prior to entry, once investments are made, it may be tempted to renege on earlier commitments given that withdrawal will be difficult due to high sunk costs (Vernon 1971, 1977).

It has been argued that investment agreements can alleviate such problem of time inconsistency by allowing host countries to credibly signal its continued commitment to investment protection. Investment agreements can promote confidence in the investment climate in the host country through two separate but related channels. First, the signing of the investment treaty may promise an improved investment climate in the future by signaling host government resolve to refrain from expropriation. Second, investment treaties provide investor protection to partner country investors by allowing the filing of a claim at designated public arbitration venues such as ICSID and UNCITRAL when their investment value has been undermined. However, empirical results on the effect of investment agreements on FDI inflows have been mixed. While some studies have found that ratification of investment treaties do help attract higher level of FDI (Buthe and Milner 2008; Neumayer and Spess 2005; Berger, Busse, Nunnenkamp, and Roy, 2013), others have found no relations (Yackee

2009) or found decreasing marginal return (Busch & Tobin 2010; Tobin and Rose-Ackerman 2011; Rose-Ackerman 2009).

More recent studies, such as Allee and Peinhardt (2011), have tried to bridge these inconsistencies among results by pointing out that the positive effect of bilateral investment treaties on FDI is contingent upon the actual enforcement of investment protections by the host government. That is, whether the government abides by commitments laid out in investment treaties is more important than the mere act of ratification. Investor-state dispute settlement bodies can provide useful information about whether the terms of agreements are actually being kept, leading to a decline in the expropriation risk in the host country.

According to this view, the investor-state dispute settlement mechanism serves the role of fire alarm monitoring and enforcement mechanism similar to one envisioned by Lupia and McCubbins (1994) in a domestic political setting. Because it is costly for investors engage in police-patrol and oversee all state activities vis a vis foreign assets closely, investors will rely on information from public investor-state arbitration to judge whether the host country is abiding by its commitment to investor property rights. Claims by investors against the host government serve as a warning that the host government is reneging on its treaty-based obligation to protect foreign investor assets. Wellhausen (2015) has built on the intuition of Allee and Peinhardt (2011) to show that investor nationality conditions the effect of news of host country expropriation on investment. Investors withdraw in response to host country expropriation of conational investment, but not to expropriation of investments by investors of different nationalities.

While the recent studies have made meaningful contributions by pointing out the importance of actual enforcement relative to the simple promise of enforcement, they neglect to acknowledge that investors do not evaluate these investment treaties in isolation. Because

state willingness cannot be observed directly and lots of uncertainties remain regarding the probability of future compliance, investors turn to host country's systematic foreign policy ideology to gauge whether compliance is likely. Investors will use what they know about the host government's preference regarding international cooperation as a cognitive short cut to estimate whether the signing of the agreement or news of a violation will signify a decrease and increase, respectively, in the threat of expropriation.

Past researchers have found evidence that in a situation of incomplete information, investors use various types of information shortcuts to arrive at the conclusion about a country's intention or willingness to abide by international commitments. Brooks and Mosely (2012) have found that investors evaluate creditworthiness of a country based not only on its economic fundamentals but also on their views of the sovereign debt risks in similar countries based on their categorization (sovereign debt rating, geography, and level of market development). Being categorized in the same reference group as trustworthy countries can have a positive effect on the country's credit ratings. In a similar manner, Gray and Hicks (2014), through survey experiments, found that investors assign a better risk rating score to less-known emerging countries if they sign international agreements with well-known relatively risk-free countries due to anticipation of associated economic benefits.[1] Moreover, Gray (2009) found that EU membership decrease the perception of risk in member. This is because when information is limited and unreliable, as it is the case in less-developed countries, investors rely on public acts such as membership in international institution, which serves as a "seal of approval" that the level of liberalizing policies in potential members meet EU standards.

[1] Biglaiser, Hicks, and Huggins (2008) also provide evidence on investor informational shortcuts.

In a similar manner, country's systematic foreign policy orientation – whether it has been abiding by the rules and norms of the US-led liberal order – is a heuristic device or mental short cut that private investors rely upon to derive conclusions about the willingness of different country actors to comply with the signed investment agreement. Because government's ideology is not directly observable, investors look at observable state behavior on the international stage to place states into a spectrum related to their acceptance of liberal norms and rules. In domestic politics, voters will often evaluate the future policy trajectory of a candidate through where he falls in the ideology spectrum ranging from conservative to liberal. For example, a republican voter will support republican candidates assuming that the candidate will share a lot of his policy preferences without knowing much details.[2]

In the same manner, investors will place states in a continuum of ideology based on their behavior in the international stage. On the one side of the continuum will be so-called *liberal order supporters* who align with the US in most of its foreign endeavors. These states will generally be supporters of democracy, free markets, and compliance with international law spearheaded by the United States as well as major Western European states. On the other end of the continuum are the *liberal order challengers* who try to challenge US-led liberal orders. Unlike liberal order conformers, these challengers will be generally opposed to idea of spreading democracy, economic liberalization, and cooperating in the context of US-established liberal institutions. Voeten (2000) and Bailey, Strezhnev, and Voeten (2015) show that states' foreign policy ideologies extracted from their UNGA voting behaviors since the Cold war has indeed followed a unidimensional spatial model with the US and western states who embrace US-led international order on one pole and non-western states that challenge the US-led order on the other pole. This suggests that countries not renowned for

[2] Interview with Daniel Oppenheimer, http://www.nytimes.com/2016/01/26/opinion/campaign-stops/what-voters-want.html?_r=0

being a reliable and cooperative partner in the existing global liberal order might have difficulty attracting foreign direct investment through the ratification of international investment agreements. When these agreements are signed, investors are less likely to believe that the terms of agreements will be kept if the host government is a liberal order challenge, not supportive of international economic cooperation. On the other hand, if the host government is perceived to have liberal foreign policy ideology, ratification of investment agreements will attract higher level of foreign direct investment as investors will be more confident that the terms of agreements will be kept. Investors are more suspicious when countries who do not typically accept the rules and norms of the liberal international system ratify BITs. This insight generates hypothesis H1a as follows:

H1a: Ratification of investment agreement by liberal order challengers is less likely to attract more foreign direct investment

Moreover, liberal challengers will have difficulty maintaining FDI when there is an allegation of breaches of bilateral investment agreements and when these allegations end up in settlement between the two parties. As it is the case with investment treaties, claims against the host country may not always reveal useful information about the investment climate to investors. A claim of IIA violation in itself does not provide a clear negative signal to the investors. On the one hand, a filing could indicate an increase in the systematic expropriation risk in the host economy. This is likely to be the case if the expropriatory behavior is triggered by the host government's willingness to sacrifice compliance with international investment agreement for other domestic political goals. If this is the case, investors may have to worry about the deterioration of investment climate in the host country. On the other hand, under different circumstances, a filing may not be a meaningful predictor of increased expropriation risk. It is possible for the claimant to make a false accusation when

there actually was no violation. Additionally, the observed violation could be driven by an unrelated agenda that resulted in expropriation of foreign investment as a byproduct. In these cases, investors will not have to worry that future expropriation risk has systematically increased.

Given this, if investor-state dispute is filed against a liberal order challenger, investors are more likely to interpret it as a real threat to their investment and liquidate. The same applies to settlement between the claimant and the respondent. On the other hand, if an investors-state dispute case is filed against a liberal order supporter, investors will be less likely to withdraw their investment. In this case, investors will be more likely to perceive the filing as a false accusation by the claimant or a temporary deviation that does not define the trajectory of its future economic cooperation. From this intuition Hypothesis H1b is generated as below:

H1b: An allegation or settlement of investment agreement violation is more likely to cause a decline in FDI inflows in *liberal order challenger* host countries.

In the subsequent section, I provide quantitative evidence of the hypotheses H1a and H1b to illustrate that host country's acceptance of liberal norms and rules affect how investors evaluate the likelihood of compliance with the commitments laid out in international investment agreements.

Empirical Methods

In this section, I empirically test my hypotheses using foreign direct inflows (from WDI, World Bank) into 100 host countries from 1994 to 2013.[3]

Dependent Variable

[3] List of these countries can be found in the appendix

The main outcome variable is the volume of aggregate foreign direct investment inflow. This variable is the logged value of annual foreign direct inflow in US dollars, taken from the 2015 version of the World Development Indicator (WDI) of the World Bank. Because FDI flow data reports the difference between the overall investment inflows and outflows, some of the observations are negative, which poses a problem for log transformation. Given this, following Wellhausen (2013), I add a constant value to the FDI flow figures to transform all negative values to positive values prior to log transformation.[4]

Main Explanatory Variables

There are two main independent variables in this study. In order to test hypothesis 1a that ratification of investment agreement by *liberal order challengers* is less likely to attract more foreign direct investment, I use the product term of BITS ratification and host country's foreign policy ideology as the independent variable. In order to test hypothesis 1b that an allegation of investment agreement violation is more likely to cause a decline in FDI inflows in *liberal order challengers*, I use the product term of arbitration claim and host country's foreign policy ideology as the independent variable.

BIT ratification is a binary indicator coded using International Investment Agreement Navigator of Investment Policy Hub.[5] 0 indicates no new agreement in the given year while 1 indicates that at least one new agreement was signed. Arbitration claim is also a binary indicator with 0 signifying no filing against the host country in the given year and 1 signifying the existence of at least one filing.[6]

[4] This is achieved by adding a smallest positive number to all the values so that the smallest value amounts to 0.001.

[5] http://investmentpolicyhub.unctad.org/IIA

[6] I thank Rachael Wellhausen for Data on arbitration filing.

Host country's acceptance of liberal rules and norms is proxied by the country's systematic foreign policy preferences expressed in its voting pattern in the UN General Assembly. In each UN General Assembly session, all member states vote yes, no, or abstain on resolutions concerning global issues ranging from human rights to nuclear non-proliferation, which gives us a unique opportunity to capture individual states' overall foreign policy preferences vis a vis the US-led global order grounded in democracy, economic liberalization, and institutional cooperation. As noted in the preambles of the United Nations Charter, the United Nations is a liberal institution whose main purpose is to "establish conditions under which justice and respect for the obligations rising from treaties and other sources of law can be maintained."[7] The number of UN General Assembly members has remained consistently above 180 since 1993, allowing us to observe the systematic foreign policy preferences of peripheral countries in the developing world that usually do not have much of a voice in other international organizations dominated by powerful countries. As such, how states vote on the liberal UN agenda makes it possible to extract the preference of member countries on the variable of interest – support or rejection of US-led liberal order.

I use the UN ideal point data by Bailey et al (2015) because, unlike other existing measures of state preferences using UN voting, Bailey et al allows for the separation of agenda change from preference change to better capture shifts in state foreign policy preferences. While the UN voting agenda varies by session, Bailey et al (2015) uses the IRT model to create an one dimensional preferences continuum that are comparable from one session to another, with liberal states on the right pole and illiberal states on the other pole. This is achieved by restricting resolutions with the same content to serve the role of anchor by assuming same preference parameters across different time periods. In the data, UN Ideal

[7] http://www.un.org/en/sections/un-charter/preamble/

Point variable ranges from -1.90 to 3.06. The observation with the most illiberal foreign policy ideology was Iran in 2013 with the score of -1.90 and the one with the most liberal foreign policy ideology was United States in 1996 with the score of 3.06.

Latent foreign policy preferences scores extracted from country's UN General Assembly voting patterns are plausible measures of foreign policy preferences that investors observe in the international stage, which contribute to investors' priors on state's likelihood to be cooperative. Voting in General Assembly has been proven to capture effectively changes in national foreign policy driven by ideological shifts. For example, Ideal point estimations based on UN voting predicted Venezuela's end-of-1990s departure from a position of US ally to opposing the US led liberal order after Hugo Chavez took power.

Moreover, Bailey et al (2015) demonstrate empirically that the preference dimension seen in the UN Ideal point distribution reflects the divide over liberal policy measures such as economic openness, and human rights, and democracy. Discriminating parameters measure the weight that the resolution has on the distribution of state interest along a single preference dimension and as expected, discriminating parameters for economic and human rights resolutions were found to be higher than the average. Bailey et al (2015) also show that economic openness, democracy, and human rights are significant and positive predictors of the host country's ideal point shift towards that of the United States.

Control Variables

In the analysis, I control for factors that have been found to be correlated with two relationships of interests: ratification of BITS and the FDI inflows or the filing of IIA claims and FDI inflow. I include basic macroeconomic variables such as annual GDP growth, GDP (logged) and GDP per capita (logged) to control for the economic condition, the size of economy, and the level of development in the host country. These factors all influence

investor's decision to invest in the host country. I also control for capital openness using Quinn Index. To control for political factors that can influence decision to invest, I include Polity score from Polity IV and a Polcon variable for domestic checks and balances (Henisz, 2013). I also use political risk index from International Country Risk Guide (ICRG) as a proxy for the level of property protection in the host country. Following the literature (Jensen, 2003; Wellhausen, 2015; Allee and Peinhardt, 2011; Li and Resnick, 2003), I use Investment Profile, Government Corruption, and Bureaucratic Quality measures from ICRG to create a composite index of political risk. I include the currency undervaluation measure (WDI) to account for the fact that currency depreciation attracts foreign capital by making local assets cheaper. I also control for total number of BITs since countries with more bits are more likely to sign additional BITs and attract more FDI. I include a measure for tertiary educational attainment from Barro and Lee to account for the availability of skilled labor in the country. Finally, I control for economic crises using data from Laeven and Valencia (2012). In all analyses, all control variables are lagged by one year to deal with potential endogeneity issues. Table 1 provides summary statistics of all the variables used in the main analysis.

Results

Table 2 displays the results from various OLS specifications testing my main hypothesis that host countries categorized as *liberal order challengers* will benefit less from international investment agreements. All models are with standard errors clustered by country to account for the possibility of grouped errors by country unit (Katz and Beck, 1996). Time trend variable and EU indicator is included in all models to account for the global trend in increasing FDI inflows and account for the peculiarity of single European market. Across all Models, the product term of bilateral investment treaty and liberal foreign policy and the product term of international arbitration and liberal foreign policy appear significant and

positive. This confirms my central hypotheses that country's systematic foreign policy orientation conditions investor assessment of the credibility of promise to comply with investment agreements. Model 1, 2, and 3 use pending IIA (IIA allegation) to test for the effect of IIA arbitration on FDI. Model 1 presents the baseline model without the lag dependent variable. Model 2 displays the same model with the lagged dependent variable to account for a potential serial correlation. Because FDI is highly serially correlated, not including the lagged dependent variable may run the risk of incorrectly specifying the model (Katz and Beck, 1996). Model 3 introduces country-fixed effect to the model to show that the results are robust to cross-sectional heterogeneity. [8] Across Model 1,2, and 3, IIA CLAIM X LIBERAL FOREIGN POLICY remain significant,[9] which demonstrates that investors likely to perceive claims against less liberal host countries as an indicator of impending danger for their investment. Model 4, 5, and 6, replace the binary indicator for impending IIA claims with that indicating settled international arbitration claims. Here, I expect to observe the similar effect as the details of settled arbitration are not released, which creates room for investors to rely country's general foreign policy ideology to make a judgement. Model 4 displays the base model. Model 5 displays the same model with the lagged dependent variable. Model 6 shows that the model is robust to the addition of lagged dependent variable and fixed effect. The SETTLED IIA X LIBERAL FOREIGN POLICY variable is still significant at 0.053 level.

To better display the substantive effect of the interaction term on FDI inflows, four graphs in Figure 1 present the effect of each independent variable of interest on FDI inflows

[8] Nickell(1981) has noted including both lagged variable and fixed effect in the model can lead to a large bias in the estimator termed Nickell Bias if T is smaller than 20. Because my T=20, I am not highly concerned about the possibility of this bias. Also, running the same models without fixed effect do not change my results. For extra robustness of the result, I run the same model using the gravity model without fixed effect and the results remain unchanged.

[9] Model 3 has a p-value of 0.53 and thus is significant at 0.1 level.

conditional upon support for liberal foreign policy. The outcome variable is the predicted level of FDI inflow from my OLS regressions with fixed effects in Model 3 (for Pending IIA) and 6 (for Settled IIA). The substantive effects displayed in Figure 1 confirm my hypotheses. Figure 1-(b) and 1-(d) show that BITs increase investment flows only to countries who typically accept liberal proposals in the UN General Assembly. BIT ratification has a positive effect on FDI only when the liberal foreign ideology score is greater than 0. Figure 1-(a) and 1-(c) show that impending and settled IIA in arbitral tribunals only lead to reductions in investments in countries that typically vote in an illiberal manner. However, this negative effect disappears for countries that vote consistently in a liberal manner. For both pending IIA and settled IIA, the negative effect on FDI disappears around the liberal foreign ideology score greater than -0.5. These substantive results confirm that the geopolitical priors that investors hold about the host country do affect their evaluation of the credibility of investment agreements.

Robustness Checks

An alternative explanation for the moderating effect of liberal foreign policy ideology on the effect of BITs on FDI is that a variable found to be correlated with both liberal order and FDI by past studies, such as democracy, may be driving the observed effects of liberal foreign policy on investor perception. In this section, I conduct additional tests to show that my main results are not driven by any single factor correlated with liberal order but rather by the overall level of respect for liberal order.

Table 2 shows that my results cannot be attributed to factors such as democracy, economic openness, or membership in a credible international organization. Past works have found that democracy provide better property rights (Jensen, 2008) and more opportunities to

lobby the government for more preferable policy outcomes (Li and Resnick, 2003). If this is true, significance of the liberal foreign policy variable may be the product of democracy's influence on investor behavior. Model 1, however, shows that this is not the case. Both the product term of democracy and BITs and product term of democracy and impending claims appear insignificant, which demonstrates that democracy is not what's driving the positive moderating effect of the liberal foreign policy variable. Neither the binary indicator of democracy (Cheibub, Gandhi, and Vreeland, 2010) nor polity has any moderating effect on BITs or IIA claims.

Another explanation of why countries with UN voting score closer to the US may attract more FDI concerns their liberal economic policies. Private investors may be more likely to have a favorable expectation of BITs compliance in the host country if the host country has the track record of adopting liberal, foreign investment friendly policies in the past. Moreover, claims against countries that have adopted liberal current and capital account are more likely to be believed as a false alarm. Model 2 shows that liberal economic policy is not what's driving my results. In Model 2, I use an additive composite measure of current account (cur100) and capital account openness scores (cap100) from Quinn & Toyoda Economic Openness Index (2015) as a proxy for liberal economic policy. Both the product term of and BITs and economic openness and product term of impending claims and economic openness appear insignificant in the Model.

It is also possible that the liberal foreign policy measure is capturing the effect of membership in international economic organizations that can provide a seal of approval for host country's commitment to economic liberalization. This is plausible since countries with more liberal foreign ideology are more likely to join liberal international organizations. Gray (2009) shows that investors are likely to update their expectation about the economic

fundamentals of the given country based on public signals from a credible third party such as the EU. Similar mechanism may also be operative for BITs and IIA filings. Investor confidence of member countries may be impervious to potentially negative information that IIA allegations generate. Model 3 finds no support for the role of EU in moderating investor expectations. Again, both the product term of and BITs and EU membership and product term of impending claims and EU membership appear insignificant in the Model. This illustrates that my results are not driven by membership in exclusive and credible organizations such as EU.

Conclusion

In this paper, I have demonstrated that investors do not evaluate investment treaties in isolation. Geopolitical positioning of the host country in the liberal global order shapes the priors investors hold about each country, which in turn affects how they process information in the condition of uncertainty. I have shown that investors are more likely to assign a higher probability of real violation if the host country is a liberal order challenger but not if it is a liberal order supporter. My results are robust to multitudes of alternative specifications and I show that while correlated with the level of support in US liberal order, democracy, membership in a credible economic organization, and the level of economic liberalization cannot in themselves account for the moderating effect of the liberal support variable on the effect of international investment agreement on FDI inflows.

My findings suggest the need to study how geopolitical factors shape not only investors behavior through generating political risk but through their influence on the perception of investors. Past studies have studied geopolitical factors affect state-level economic policies for public actors such as national governments and international organization. Countries close to the western liberal countries get more IMF lending (Dreher

et al, 2009), World Bank loans, and foreign aid. However, insufficient attention has been paid to how geopolitics influence the behavior of private investors by affecting the systematic beliefs they hold about host countries' preferences and willingness. I find that these geopolitical-based beliefs are sticky and conditions how investors react to new information about host government policies. Given that the net benefits of IIA ratification is negative for *liberal order challengers*, it is no surprise countries that score low in liberal foreign policy ideology have been withdrawing from ISDS and BITs.

Table 1. Descriptive Statistics for Variables Used in the Analysis

	mean	sd	p50	min	max
FDI(Logged)	10.59	0.413	10.50	-6.908	13.55
BITs Ratification	0.389	0.488	0	0	1
Liberal Foreign Policy	-0.103	0.863	-0.357	-1.901	3.060
Pending IIA	0.106	0.308	0	0	1
Settled IIA	0.0296	0.169	0	0	1
Capital Openness	70.93	27.65	75	12.50	100
GDP	9.753	2.447	9.575	2.388	16.63
GDP Per Capita	8.006	1.626	8.007	4.171	11.64
GDP Growth	4.070	6.529	4.001	-62.08	150.0
Educational Attainment	0.386	0.338	0.309	0.000597	1.764
Political Risk	28.06	8.955	26.21	5	48
Currency Valuation	-0.00584	0.359	-0.0132	-2.047	1.503
Polity	-0.319	17.91	6	-88	10
Total BITs	17.45	21.57	8	0	120
Economic Crisis	0.0522	0.222	0	0	1
EU	0.108	0.311	0	0	1

Table 2. **Conditional Effect of Liberal Foreign Policy on the Effect of BITS and IIA on FDI**

VARIABLES	(1) Model1	(2) Model2	(3) Model3	(4) Model4	(5) Model5	(6) Model6
FDI Inflow t-1		0.691***	0.340***		0.702***	0.344***
		(0.072)	(0.087)		(0.073)	(0.087)
BITS dummyX	0.055**	0.045**	0.041**	0.049**	0.044**	0.040**
Liberal Foreign Policy	(0.022)	(0.016)	(0.015)	(0.022)	(0.016)	(0.015)
Pending ClaimX	0.162**	0.045**	0.032**			
Liberal Foreign Policy	(0.061)	(0.023)	(0.016)			
Settled ClaimX				0.126**	0.054**	0.049*
Liberal Foreign Policy				(0.056)	(0.023)	(0.025)
Liberal Foreign Policy	-0.038	-0.026**	-0.020	-0.004	-0.018	-0.015
	(0.032)	(0.012)	(0.026)	(0.045)	(0.014)	(0.025)
Capital Openness	0.001**	0.000	0.000	0.001*	0.000	0.000
	(0.001)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)
GDP	0.098***	0.036***	-0.094	0.101***	0.036***	-0.103
	(0.021)	(0.009)	(0.116)	(0.024)	(0.009)	(0.116)
GDP Per Capita	-0.050**	-0.017**	0.197	-0.060**	-0.019**	0.205
	(0.024)	(0.008)	(0.131)	(0.029)	(0.009)	(0.130)
GDP Growth	0.006**	0.003**	0.002**	0.006**	0.003**	0.002**
	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
Educational Attainment	0.134	0.049	0.193**	0.140	0.049	0.192**
	(0.091)	(0.034)	(0.089)	(0.098)	(0.034)	(0.089)
Political Risk	0.002	0.001	0.002	0.003	0.001	0.002
	(0.003)	(0.001)	(0.001)	(0.003)	(0.001)	(0.001)
Currency Valuation	-0.106***	-0.031**	0.045	-0.101**	-0.029*	0.041
	(0.039)	(0.015)	(0.049)	(0.040)	(0.015)	(0.049)
Polity	-0.003**	-0.001**	-0.001**	-0.003**	-0.001**	-0.001**
	(0.001)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)
BITs	0.003	0.001	0.004***	0.003	0.001	0.004***
	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
Economic Crises	-0.005	-0.019	-0.000	-0.007	-0.020	-0.001
	(0.024)	(0.018)	(0.019)	(0.025)	(0.018)	(0.019)
Constant	4.727	0.856	11.435*	3.901	0.648	10.947
	(6.278)	(2.633)	(6.877)	(6.787)	(2.751)	(7.044)
Observations	1,505	1,499	1,499	1,505	1,499	1,499
R-squared	0.473	0.704	0.281	0.455	0.703	0.281
Number of country	100	100	99	100	100	99
Country FE			YES			YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 1. Substantive Effect of BIT Ratification and IIA on FDI

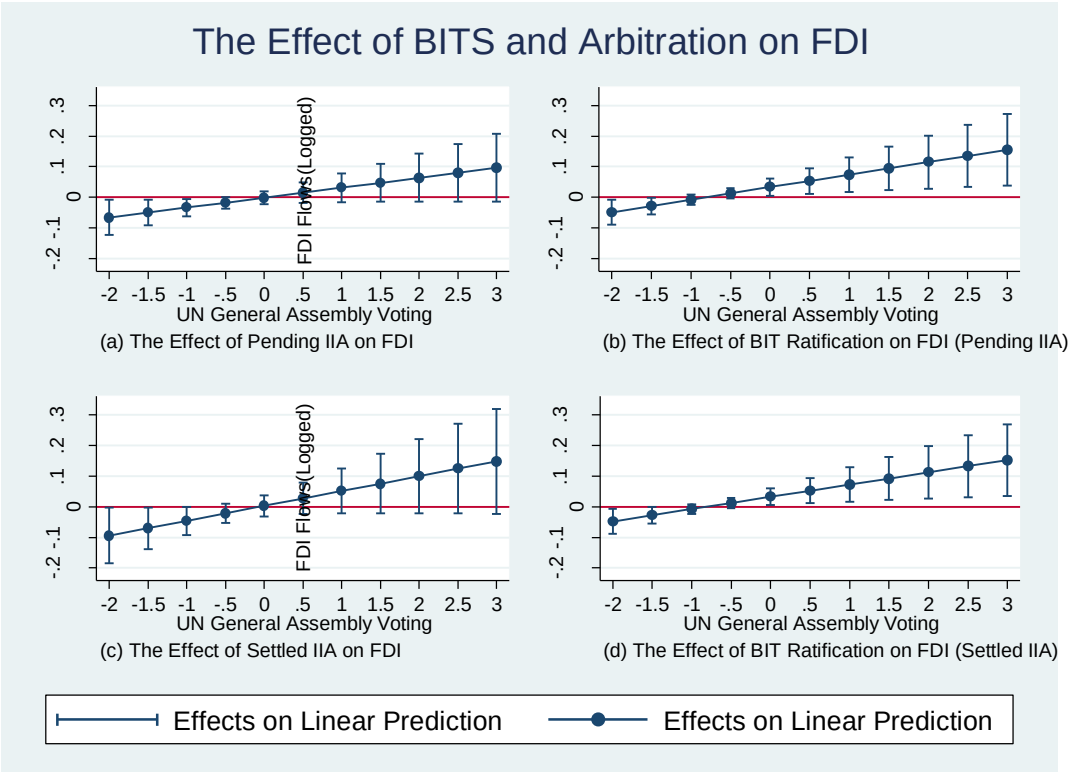


Table 3. Robustness Check (Democracy, Economic Openness, and EU)

	(1) Democracy	(2) Economic Openness	(3) EU
FDI (t-1)	0.706***	0.705***	0.706***
	(9.62)	(9.61)	(9.70)
BITS Dummy	0.008	-0.063	-0.010
	(0.82)	(-1.73)	(-1.07)
Polity	-0.001*	-0.001*	-0.001*
	(-2.50)	(-2.34)	(-2.51)
BITS Dummy X Polity	0.0001		
	(0.11)		
BITS Dummy X Economic Openness		0.0005	
		(1.65)	
BITS Dummy X EU			0.110
			(1.66)
Pending Claims	-0.023	-0.058	0.005
	(-1.71)	(-1.44)	(0.31)
Pending Claims X Polity	0.003		
	(1.24)		
Pending Claims X Economic Openness		0.0005	
		(1.65)	
Pending Claims X EU			-0.058
			(0.050)
Capital Openness	0.0004	0.0004	0.0003
	(1.57)	(0.91)	(1.30)
GDP	0.033***	0.034***	0.032***
	(3.89)	(3.94)	(3.87)
GDP Per Capita	-0.018*	-0.018*	-0.017*
	(-2.04)	(-2.08)	(-2.01)
GDP Growth	0.002*	0.002*	0.002*
	(2.38)	(2.40)	(2.30)

Educational Attainment	0.055	0.062	0.062
	(1.47)	(1.53)	(1.53)
Political Risk	0.001	0.001	0.001
	(0.76)	(0.88)	(0.78)
Currency Undervaluation	-0.035*	-0.027	-0.028
	(-2.26)	(-1.91)	(-1.91)
Total BITs	0.001	0.001	0.001
	(1.46)	(1.43)	(1.41)
Economic Crises	-0.019	-0.016	-0.016
	(-1.06)	(-0.87)	(-0.86)
Economic Openness		-0.0003	
		(-1.18)	
EU			-0.055
			(-0.94)
_cons	2.910	2.740	2.389
	(1.34)	(1.23)	(1.08)
N	1516	1516	1516

t statistics in parentheses

="* p<0.05 ** p<0.01 *** p<0.001"

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